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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

BY HAND

Magalie Roman Salas
Federal Communications Commission
12th Street Lobby, TW-A325
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: ERRATA: Reply Comments of GTE in the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal State Joint Board on Universal Service, CC Docket Nos. 96-262, 94-1, 99-249, and 96-45.

Dear Madam Secretary:

Attached is a corrected version of GTE's Reply Comments in the above referenced proceedings. This version corrects two errors in the original Reply Comments, which were timely filed on April 17, 2000. First, this version removes the erroneous "Draft: Privileged and Confidential" notation from the inner title page of the original. Second, this version includes Figure 3 in Attachment A, which due to a computer error did not display correctly when the original Reply Comments were printed.

If you have any additional questions, please do not hesitate to contact the undersigned.

Sincerely,

Joshua S. Turner

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Enclosure
CC: Lloyd Collier, FCC (via fax)

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
Access Charge Reform	)	CC Docket No. 96-262
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
Low-Volume Long Distance Users	)	CC Docket No. 99-249
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45

REPLY COMMENTS OF GTE

GTE SERVICE CORPORATION AND ITS
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April 17, 2000

Table of Contents

SUMMARY

The Coalition for Affordable Local and Long Distance Service ("CALLS" or the "Coalition") presents the Commission with a unique historic opportunity to take significant strides to resolve more than two decades of bitter disputes that have accompanied the quest to resolve three thorny interrelated regulatory issues: universal service, subscriber line charges and access rates. While the CALLS plan does not completely or perfectly resolve every issue, it does represent a careful balance that achieves a remarkable number of competing goals. In these comments, GTE again urges the Commission to take the historic path toward tangible, public interest benefits. The record illustrates that CALLS enjoys wide support. A paper by Dr. Laura Tyson, former Chair of the President's Council of Economic Advisors and the National Economic Council, is attached which demonstrates the benefits of the CALLS proposal and the urgent need for reform.

Several naysayers, however, attempt to skew the balanced CALLS plan to their own selfish interests. A tiny number of commenters challenged the plan on process grounds either because all affected parties were not participants in the Coalition or that the CALLS proposal is the product of compromise. Not only do these commenters fail to point to any legal or procedural support that could undermine the legality of the procedures followed, their arguments ignore the important role these negotiations play. For one, the Commission has long recognized the value of the negotiation process to resolve difficult regulatory issues and produce regulatory stability. Moreover,

compromise is an important, if not essential, element in the regulatory process and has been used in countless rulemaking proceedings.

Other commenters express concerns that the failure to include all voices in the Coalition taints its proposal as unreasonable. This view ignores the fact that administrative procedures have been designed to include the opportunity for all interested parties to comment. Here, the interested public has had four separate opportunities to do so. In fact, this and other feedback led to the modifications to the CALLS proposal that are currently at issue.

As the Coalition briefs and comments, as well as a multitude of supportive commenting parties, have demonstrated, the CALLS modified proposal will produce a series of important and tangible benefits not only for consumers but also for the entire telecommunications industry.

For one, the CALLS proposal takes significant strides in establishing a sufficient, predictable, and explicit universal support mechanism. Initially, the proposal attacks major sources of implicit subsidy in interstate access charges support by reforming the common line rate structure. It then includes $650 million in interim support. Detractors' claims have no merit. The interim $650 million figure was determined via arms-length negotiations between parties with different economic interests but equal bargaining power, is sized between the various estimates of implicit support, and is based, in part, on UNE loop and port pricing. These techniques have produced interim results that are at least as predictable as the results generated by the current, implicit support structure. Finally, none of the commenters in this proceeding have offered any convincing evidence that the fund should be different from the one proposed by CALLS.

The Commission should avoid further delays. GTE is not opposed to further informal consultation with the Federal-State Joint Board, provided it does not interfere with the July 1 implementation date. The Commission should also reject the argument that Section 254(k) prevents the Commission from rolling the PICC into the SLC. The Eighth Circuit has already found against this argument.

Another benefit of the CALLS plan is that it sets SLC caps at the levels necessary to permit ILEC recovery of common line costs while ensuring that rates remain affordable and comparable throughout the country. The modified CALLS proposal takes the original proposal two steps further by (1) lowering the SLC caps, and (2) giving the Commission the opportunity to review cost data after the SLC reaches $5. Alternative proposals for even lower SLC caps based on the Hybrid Cost Proxy Model or a forward-looking economic cost model are seriously flawed. Additionally, these proposals fail to address the link between SLCs and universal service funding. At bottom, the Coalition plan provides greater affordability and comparability of rates by fostering competition, particularly in rural and high-cost areas, through the creation of incentives and opportunities for competitive carriers to compete for all types of customers.

Finally, the switched access rate reductions contained in the modified CALLS proposal will provide both immediate and continuing benefits arising from significantly reduced long distance charges. First and foremost, the proposal guarantees benefits flowing from switched access rate reductions to take effect on July 1, 2000. In addition, by targeting the X-factor productivity adjustment on switched access rates, the proposal will reduce these rates by almost 50% within the five-year duration of the CALLS plan.

The CALLS plan will produce greater public interest benefits than would an equal allocation between flat-rate and minute-of-use ("MOU") pricing of access services.

Even with these substantial benefits, some continue to throw stones, rather than offering real solutions. First, some commenters assert that this approach is an arbitrary departure from existing price cap regulation. The assertion that there is no economic justification to depart from the present system of applying the X-factor equally to all price cap baskets fails to recognize that this same objection applied equally to the targeting of the TIC. In that case, the Commission expressly rejected this argument, noting in essence that the end to be achieved justified the means. In this case, it is entirely justifiable to accelerate price cap reductions for a specific service category or subcategory where the goal is to obtain a reasonable, pro-competitive end result.

Nor does the CALLS proposal's targeting of X-factor reductions to Average Traffic Sensitive rates constitute premature pricing flexibility. Far from granting ILECs premature pricing flexibility, the CALLS proposal retains the existing limitations on pricing flexibility contained in Section 61.47(e). Asserting that the CALLS plan's X-factor changes results in the creation of an arbitrary X-factor scheme is without merit. The CALLS proposal is simple, straightforward and, does not establish a multitude of X-factors. Finally, the assertion that the reduction of the X-factor to GDP-PI is arbitrary fails to properly acknowledge that this mechanism is entirely rational in the context of the entire CALLS proposal to achieve a certain end.

Second, several parties assert that the rate reductions for switched access are too steep and will thus inhibit entry of CLECs into the local exchange access market. However, a more gradual glide path to the CALLS target rate caps would merely

mandate higher rates, and thus, provide CLECs with higher revenues for a transitory period. As Dr. Tyson points out in her analysis, this artificial revenue boost only encourages additional CLEC entry that is misguided and economically unsound in the long term. Instead, these CLECs are arguing that the Commission should allow them to endorse their practice of "umbrella pricing," i.e., pricing access services just below the rates offered by ILECs. This is wrong.

The CALLS proposal represents the Commission's best road map out of the regulatory thicket of three of the largest issues facing it today: universal service, subscriber line charges and access rates. The parties throwing rocks at this effort have missed the target. The procedure used is right and reasonable; attempts to derail the process by introducing side issues must be rebuffed. The public interest benefits to the CALLS plan are real, the plan will help consumers, and the holistic approach will bring competition to all sectors of the country. GTE strongly urges the Commission to take the right first step and adopt the CALLS plan as proposed.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
Access Charge Reform	)	CC Docket No. 96-262
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Low-Volume Long Distance Users	)	CC Docket No. 99-249
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45

REPLY COMMENTS OF GTE

GTE Service Corporation and its affiliated local exchange carriers (collectively "GTE")[1] respectfully submit their Reply Comments to the Commission's Public Notice requesting supplemental comment on the proposal of the Coalition for Affordable Local and Long Distance Service ("CALLS" or the "Coalition").[2]

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[1] GTE Alaska, Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Hawaiian Telephone Company Incorporated, The Micronesian Telecommunications Corporation, GTE Midwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, Contel of Minnesota, Inc., GTE West Coast Incorporated, Contel of the South, Inc., and GTE Communications Corporation.

[2] *Coalition for Affordable Local and Long Distance Services (CALLS) Modified Proposal*, DA 00-533 (Mar. 8, 2000) (Public Notice) *("Modified CALLS Notice");* deadlines extended in *Coalition for Affordable Local and Long Distance Services (CALLS) Modified Proposal*, DA 00-692 (Mar. 24, 2000) (Public Notice). Unless

(Continued...)

The Coalition has presented the Commission with a unique historic opportunity: the chance to ameliorate more than two decades of bitter disputes that have accompanied the quest to resolve three thorny interrelated regulatory issues: universal service, subscriber line charges and access rates. The CALLS plans, both the original plan proposed on July 29, 1999 and the modified plan presented on March 8, 2000, are attempts by a group of local exchange carriers and interexchange carriers to propose a comprehensive, balanced holistic response to these competing policy interests. In these comments, GTE again urges the FCC to adopt as proposed the CALLS comprehensive plan for access pricing and universal service protections.

As an initial matter, those parties that allege the process by which the CALLS plan was developed is inherently flawed are wrong. The CALLS process is a well-established means of developing consensus on these difficult issues. In fact, the proposal represents not only the consensus of opinion among previously adverse parties but also the surest route to a far-reaching, pro-competitive response to these long debated issues. Finally, the Commission should not be distracted by the laundry list of pet issues other parties attempt to link to CALLS. The issues confronted here are difficult enough without these distractions that are already being addressed by the Commission in other proceedings.

(...Continued)
otherwise noted, all comments cited herein were filed in CC Docket No. 96-262, et al. on April 3, 2000.

I. THE CALLS PROPOSAL PRESENTS THE BEST PATH OUT OF THE PRESENT REGULATORY THICKET INTO THE FIELDS OF OPEN COMPETITION.

The Commission has reached a critical crossroads where the future of many intransigent access, price cap, and universal service issues can be substantially addressed in a harmonious fashion. This type of historic decisionmaking opportunity comes very rarely: the last one occurred over 20 years ago.[3] At this junction there are two critical choices. One path leads to broad industry consensus where the Commission can resolve a huge number of outstanding proceedings and move toward the creation of a stable regulatory landscape and the open competitive environment that the 1996 Act seeks to achieve. The other path only continues the journey through the current thicket of numerous, protracted proceedings with multiple rounds of litigation, ending with uncertainty and little progress for all.

GTE urges the Commission to adopt the CALLS proposal, as modified on March 8, 2000, in order to take the historic path toward tangible, public interest benefits. The Commission should reject the attempts of several naysayers, some of whom have belatedly come out of the weeds along the path, in an attempt to skew the balanced CALLS plan to their own selfish interests. The CALLS plan is the result of many months of hard work and serious compromise by a coalition of the major IXC and ILEC players. Although the comprehensive CALLS plan does not completely or perfectly resolve every issue, it does represent a careful balance that achieves a remarkable number of competing goals that is the best anyone, including the Commission, has

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[3] *Exchange Network Facilities for Interstate Access (ENFIA)*, 71 F.C.C.2d 440, 443 (1979) ("*ENFIA Order*").

been able to offer to date. The compromise, transition plan has been open to detailed scrutiny through several public comment rounds and numerous public forums. This plan has been further improved after taking into consideration issues raised by the parties, including the FCC, state commissions and their staffs, and residential and business end users. GTE believes that there is not, and no party on this record has offered, a better alternative path to settlement.

As the Coalition briefs and comments, as well as a multitude of supportive commenting parties, have demonstrated, the CALLS modified proposal will produce a series of important and tangible benefits not only for consumers but also for the entire telecommunications industry. The modified plan will:

- support affordable interstate end-user rates, particularly for customers in rural and high-cost areas and low income customers;
- reduce consumer long distance rates;
- simplify customer bills;
- rationalize and stabilize price cap interstate access rate structure and levels for participating price cap carriers;
- promote competition and create a market environment where intrusive regulation is eventually unnecessary;
- promote facilities-based competition in urban and rural areas by both ILECs and CLECs;
- provide investment stability during this critical five-year period in the development of telecommunications competition; and
- create a more explicit, nondiscriminatory universal service support mechanism.

GTE strongly urges the Commission to take the right step now, and choose the path of the modified CALLS plan so that it can immediately create these important public policy results, with the stability and efficiency that only a balanced compromise can bring. Indeed, the 1996 Telecommunications Act requires the FCC to make this effort.

II. THE USE OF BROAD-BASED AGREEMENTS AMONG MAJOR PARTIES IS AN ACCEPTABLE AND REASONABLE METHOD TO RESOLVE DIFFICULT POLICY ISSUES.

A tiny number of commenters raise concerns regarding the process used to develop the proposed CALLS plan. Specifically, these commenters challenge the plan either because all affected parties were not participants in the Coalition[4] or that the CALLS proposal is the product of compromise.[5] Yet, one point is very clear, the process has been open. The fact that comments were solicited and filed belies any argument that the CALLS proposal has been insulated from the input of non-Coalition members. Additionally, input from interested parties during multiple comment rounds has had an impact, given that the proposal has been modified in response to the first round of comments.[6] Significantly, these commenters raise no legal or procedural basis that could undermine the legality of the procedures followed. Moreover, the Commission will conduct its own assessment of the public interest aspects of the proposal and it is that decision which is relevant – not the initial submission.

A. Using Negotiated Settlements and Compromise Is a Recognized Method to Resolve Difficult Policy Issues.

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4 *See, e.g.*, Comments of Allegiance Telecom, at 2 (competitive carriers not part of the Coalition) ("Allegiance Comments").

5 *See* Joint Comments of Ass'n. for Local Telecom. Services and Time Warner Telecom, at 2, 5-6 (calling the proposal a "highly flawed deal") ("ALTS/Time Warner Comments").

6 Memorandum in Support of the Revised Plan of the Coalition for Affordable Local and Long Distance Service ("CALLS"), CC Docket 96-262 et al., at 4 (filed Mar. 8, 2000) ("Revised Plan Memorandum").

As an initial matter, the Commission has long recognized the value that the negotiation process can bring to resolve difficult regulatory issues, in formulating a proposal for Commission consideration. The Commission has found that the negotiation process is "a reasonable means of avoiding complex and protracted litigation of hotly contested issues among historically litigious parties, [and] as conducive to the ends of justice, and therefore, ... in the public interest."[7] By solving thorny issues, and by producing regulatory stability through consensus and agreement, the negotiation process has the additional benefit of eliminating the costs associated with regulatory uncertainty.[8]

Indeed, recognizing these benefits the Commission itself has initiated such a process. For example, over twenty years ago, the Commission "convened meetings among the interested parties to determine whether an interim negotiated settlement could be reached" to resolve issues regarding the compensation for the use of local carrier's exchange facilities.[9] That process was successful.

Despite this history, Time Warner and ALTS take the unsupported position that proposals formulated through negotiations, such as the CALLS plan, "always contain accommodations to the specific interests of the negotiating parties that would not

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7 *ENFIA Order* at 456.

8 *See* Dr. Laura Tyson, Comments on the Proposal by the Coalition for Affordable Local and Long Distance Service, CC Docket No. 96-262 et. al, Exhibit A, at 24 (filed Apr. 17, 2000) ("*Tyson Study*"). Dr. Tyson is Dean of the Haas School of Business at the University of California, Berkeley and was the former Chair of the President's Council of Economic Advisors and the National Economic Council.

9 *ENFIA Order* at 443.

survive independent regulatory review."[10] Nothing could be further from the truth. In the ENFIA proceeding, the Commission requested comment from the public regarding the agreement and conducted its own assessment of "the public interest and not the signing parties' and commenting parties' more individual interests."[11] In the end, the Commission found the negotiated agreement to be in the public interest and approved it. The current proceeding is no different. Here, a proposal has been formulated through negotiations, the Commission has requested public comment about the CALLS plan, and will ultimately conduct the public interest review and evaluation required by the Administrative Procedure Act ("APA").[12] Such a procedure is fully consistent with the law.

Finally, Time Warner and ALTS infer that the process is somehow inherently flawed because it is the result of compromise between private parties.[13] Compromise is an important, if not essential, element in the regulatory process. The Commission has explicitly made countless compromises in its rulemaking proceedings over the years.[14]

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10 ALTS/Time Warner Comments at 2.

11 *ENFIA Order* at 451.

12 *See Access Charge Reform*, FCC 99-235, ¶ 5 (Sept. 15, 1999) (Notice of Proposed Rulemaking) ("*CALLS NPRM*").

13 *See* ALTS/Time Warner Comments at 2.

14 *See, e.g., Communications Assistance for Law Enforcement Act*, 14 FCC Rcd 16794, 16835-36 (1999) (using compromise to set standards for call-identifying messages); *Amendment of the Commission's Rules to Establish New Narrowband Personal Communications Services*, 9 FCC Rcd 1309, 1311 (1994) (using compromise to designate channels for use by Personal Communications Services); *Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board*, 9 FCC Rcd 334, 334 (1993) (using compromise to establish a universal service level).

Without compromise, no real solutions to intractable problems can be attained. Again, the ENFIA proceeding is illustrative. There, the Commission not only anticipated, but fully expected, the parties to arrive "at some form of a 'rough justice' interim approach" to resolve the issues put before them.[15] In short, compromise is not inherently bad, but rather, is essential in resolving protracted disputes.[16]

B. The Reasonableness of the CALLS Plan Is Not Dependent Upon the Size or the Specific Composition of the Membership of the Coalition Particularly Since Administrative Procedures Ensure that All Views Will Be Recognized.

Other commenters, such as Allegiance, express the concern that the absence of certain interest groups from the Coalition taints the CALLS proposal as unreasonable. They suggest that the lack of these specific voices means that not all positions will be reflected in the plan and that more participants are always better. This is simply not the case. The public comment process ensures that all views will be heard.

Administrative procedures that 'make law' have been designed to ensure that all interested parties have a voice. The APA[17] and the Communications Act[18] require that revisions such as those proposed in the CALLS plan are open to public notice and

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15 *ENFIA Order* at 443.

16 *See Review of the Commission's Regulations Governing Television Broadcasting; Television Satellite Stations Review of Policy and Rules*, 14 FCC Rcd 12903, 12989 (1999) (Statement of Commissioner Michael Powell) ("Rules, however, are by their very nature both under- and over-inclusive. The rules we adopt today are not all right, and not all wrong. But they reflect what good public policy often must be, a balanced compromise of conflicting values and judgments.").

17 *See* 5 U.S.C. § 553.

18 47 U.S.C. § 154(j).

comment. Pursuant to the APA, all interested parties have had significant opportunities, and have taken advantage of the opportunities, to express their views. The Commission has placed the CALLS plan on public notice and requested comment from the public on two different occasions.[19] In all, the interested public has had four separate opportunities to bring comment before the Commission on a formal basis. Additionally, a number of parties have used the opportunity presented by the Commission's *ex parte* rules to bring other issues and concerns to the attention of the Commission. In fact, the notice and comment procedure, as well as other feedback, led to the modifications to the CALLS proposal that are at issue in this current round of public comment.[20]

This notice and comment requirement invariably influenced the initial formation of the Coalition and plan. As an initial matter, while not every possible party was a member of the Coalition, CALLS did represent an unusually broad range of interests. In addition, understanding and appreciating the need for widespread approval, the CALLS membership necessarily needed to account for the views of those parties not actually part of the Coalition if the Coalition wanted its proposal to survive the public hearing process intact. Moreover, given the holistic nature of the proposal, the incentives to compensate for all views to preserve the integrity of the plan was intense. This led the CALLS membership to consult with interested non-members throughout the initial development of the CALLS proposal, and continuing through the administrative

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19 *See CALLS NPRM; Modified CALLS Notice.*

20 Revised Plan Memorandum at 4.

process. Thus, in a real sense, the interests of parties not actually members of the Coalition were represented as the plan was being developed and before it was presented to the Commission for consideration.

At bottom, the use of broad-based agreements among major parties is an advantageous method by which the Commission can address difficult, and thorny regulatory conflicts. There is nothing underhanded or even sneaky about this process because the Commission must undertake an open, public evaluation of the public interest issues. It is this final evaluation, not the composition of the group, its membership or size, that ultimately determines whether the output of that consensus satisfies the public interest. Given the fact that the process is sound, GTE urges the Commission to consider the public interest benefits that will result from the CALLS proposals as illustrated below.

III. THE MODIFIED PLAN ESTABLISHES A SUFFICIENT, PREDICTABLE, AND EXPLICIT INTERIM SUPPORT MECHANISM CONSISTENT WITH SECTION 254 OF THE ACT.

The Commission is obligated under the Act to design a universal service program that is sufficient, predictable, and explicit.[21] The CALLS proposal takes significant strides in establishing such a universal support mechanism. First, the proposal attacks major sources of implicit universal service in interstate access charges

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[21] *See, e.g., Federal-State Joint Board on Universal Service*, FCC 99-306, ¶ 1 (Nov. 2, 1999) (Ninth Report & Order and Eighteenth Order on Reconsideration) (*"Ninth Report & Order"*) (noting that Section 254 instructs the Commission "to establish specific, predictable, and sufficient mechanisms to preserve and advance universal service").

support by reforming the common line rate structure. As Dr. Laura Tyson demonstrates in her comments, artificially inflated access charges lead to distortions in allocation, as customers change their habits from what they would otherwise prefer. Artificially high charges also create a price umbrella that allows competitors to enter the market even if they are non-efficient producers or are charging premium prices.[22] Second, the CALLS proposal includes $650 million in explicit support targeted to high cost areas during the five-year transition period.[23]

The Commission should not be distracted off of the proper path by the claims put forth by other commenters that the Joint Board on Universal Service should be consulted on this matter or that it implicates Section 254(k). Both claims are misplaced. The CALLS plan deals entirely with interstate access charges and does not implicate state issues. The commenters that raise Section 254(k) claims ignore the fact that the Eighth Circuit has already held that this section does not require loop costs to be billed to any particular service providers.

A. The Proposed Interim $650 Million Interstate Access USF Fund for the Transition Period Is Supported by the Record.

As the Coalition has demonstrated previously, $650 million represents a reasonably sized fund during the five-year transitional period when this interim plan is implemented. The Coalition is made up of a variety of parties from a cross-section of the telecommunications industry. It includes entities that are largely net recipients of

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22 *See Tyson Study* at 9.

23 In an earlier proceeding, GTE estimated the amount of implicit support generated annually by interstate access rates at $5.9 billion annually.

universal service, such as some ILECs, as well as entities that are largely net contributors to the universal service fund, such as interexchange carriers like AT&T and Sprint. The size of the $650 million interstate access universal service support fund for the transitional period was decided through arms-length negotiations between these parties with diametrically opposed economic interests and equal bargaining power. As a result of this balance, the estimate is fundamentally conservative, and no commenters have presented any evidence to the contrary.

Indeed, the CALLS plan creates a fund sized in between various estimates of the current level of implicit universal service support. The USTA, for example, submits that the current level of implicit support is $3.9 billion.[24] An FCC staff study by Rogerson and Kwerel estimated the figure is $1.9 billion,[25] while the HAI model projects a forward-looking estimate of implicit universal support at $250 million.[26] Rather than litigate this issue, the CALLS members negotiated a reasonable, interim solution after considering all the complex issues associated with interstate universal service reform.

The CALLS fund will also help promote the affordability of basic telephone service.[27] In her comments, Dr. Tyson shows that some form of universal service fund

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[24] *See* Comments of the United States Telephone Association ("USTA"), CC Docket No. 96-45 and 96-262 (filed July 23, 1999).

[25] *See* William Rogerson and Even Kwerel, CC Docket No. 96-45 and 96-262, at 15-16 (filed May 27, 1999).

[26] *See* HAI Model Version 5.0a, CC Docket No. 96-45.

[27] The CALLS fund, however, is just one component of universal service – it is intended to address implicit supports in interstate rates, not intrastate rates.

will always be necessary.[28] Simply raising the SLC cap would not be enough to provide for universal service, since the cost of providing service in many areas of the country will continue to exceed monthly charges. The CALLS plan accommodates the need for universal service, while providing an immediate decrease in average customer costs. Even after the SLC increases are implemented, Dr. Tyson shows that the real cost to consumers of telephone service will remain much lower than it was ten years ago.[29]

The manner in which the CALLS plan was negotiated ensures the basic fairness of the settlement. For example, two Coalition members, AT&T and Sprint, are net contributors to the universal service fund. These companies have every incentive to keep the size of the fund (and, consequently, the size of their contributions) as small as possible. No commenter has suggested that these companies are unable to represent the economic interests of interexchange carriers in the CALLS proceeding. Indeed, given the size and sophistication of these entities, any such suggestion would be ludicrous. In fact, MCI, which was not part of the CALLS negotiations, has stated that the size of the fund is acceptable.[30] The divided point of view of commenters, with some saying that the number is too high and others claiming that it is too low, tends to provide further evidence that the CALLS proposal should be accepted by the Commission for the transitional period.[31]

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28 *See Tyson Study* at 22.

29 *Id.* at 22-23.

30 *See* Comments of MCI WorldCom, Inc., CC Docket No. 96-262, et al., at 11 (filed Nov. 12, 1999).

31 *See ENFIA Order* at 451.

1. No Commenters Have Presented Credible Alternatives to the Size of the CALLS Proposal.

Furthermore, none of the commenters in this proceeding have offered any convincing evidence that the fund for the five-year transitional period should be a size other than the one proposed by CALLS. ALTS' suggestion that the fund should be $300 million appears to be a number simply pulled from thin air.[32] The other suggestion by ALTS, that AT&T's $613 million estimate should not be rounded to $650 million, misses the point.[33] The CALLS estimate was not arrived at using forward-looking economic cost ("FLEC") methodology, as the CALLS filing clearly indicates.[34] Rather, AT&T's FLEC estimate was advanced by AT&T as merely another indication of support for the CALLS figure.

Finally, the FCC should not consider any arguments that commenters raise for the first time in the reply round of this proceeding.[35] The parties to this proceeding have had more than enough time to gather evidence and make their position known to the Commission during the standard prescribed comment period. There is no reason to inject further delay and uncertainty into this process by allowing parties to raise new issues at this late stage.

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32 *See id* at 4.

33 *See* ALTS/Time Warner Comments at 16.

34 *See* Revised Plan Memorandum at 10.

35 *See* Allegiance Comments at 2. Allegiance states that it will "address [potential] changes [to the size of the fund] in its reply comments."

B. The Modified Plan's Targeting Mechanism Strikes an Appropriate Balance Between Ensuring that High Cost Areas Receive Appropriate Support and Making Sure the Fund Remains a Reasonable Size.

The modified plan bases support amounts, in part, on UNE loop and port pricing, by distributing support amounts to higher cost UNE zones. This methodology produces results that are at least as predictable as the results generated by the current, implicit support structure. Moreover, the CALLS plan ensures that universal service amounts and UNE loop rates are closely tied.

Matching universal service amounts to UNE zones avoids regulatory arbitrage by preventing ILECs from receiving universal support amounts based on significant deaveraging while at the same time charging UNE loop costs that are highly averaged. If universal service is not tied to UNE zones, then the cost and support amounts would be out of balance and result in the insulation of high-cost zones from competitive entry. The CALLS plan, on the other hand, promotes consistency and predictability.

C. There Is No Need to Delay the CALLS Proposal for Further Federal-State Consultations, Since These Universal Service Issues Have Been Left for FCC Decision by the Joint Board.

Some state commenters want the FCC to consult with the Federal-State Joint Board prior to adopting CALLS. While GTE would not be opposed to a further informal consultation with the Joint Board that would not interfere with the July 1 implementation date, since the Joint Board has already reviewed these issues, such a consultation is not necessary and is certainly not a legal requirement. The universal support mechanism in the CALLS plan relates solely to implicit support in *interstate* access charges, and the Joint Board has already considered these issues twice on prior occasions. The first referral dealt generally with the creation of explicit universal service